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SUBJ: PRELIMINARY OBSERVATIONS ON 1974 SOVIET INDUSTRIAL PERFORMANCE

REF: MOSCOW 18780

1. SUMMARY: ON BASIS OF SKETCHY INFORMATION PROVIDED IN 1975 PLAN AND BUDGET SPEECHES, PLUS EMBASSY OBERVATION OF ECONOMIC DEVELOPMENTS THROUGHOUT PAST YEAR, THERE FOLLOWS PRELIMINARY ANALYSIS OF PROGRESS ACHEIVED IN SOVIET INDUSTRY DURING 1974. INDUSTRIAL PRODUCTION WILL BE UP BY EIGHT PERCENT, AS OPPOSED TO 6.8 PERCENT GROWTH TARGET SET LAST DECEMBER. REDISTRIBUTION OF PRODUCTION TAKING PLACE IN FAVOR OF MACHINEBUILDING, PETROCHEMICAL, AND CHEMICAL INDUSTRIES. CAPITAL INVESTMENTS WERE GENERALLY UTILIZED AT LEVEL OF EFFICIENCY WELL BELOW OPTIMUM. DIFFICULTIES IN JOINING R&D AND PRODUCTION HAVE MEANT CONTINUATION OF CHRONIC PROBLEMS OF LOW QUALITY, POOR PRODUCT SOPHISTICATION,

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AND RAW MATERIAL WASTAGE. PLAN GOALS IN AREA OF LABOR PRO-

DUCTIVITY WERE UNDERFULFILLED DURING FIRST FOUR YEARS OF FYP AND PROBABLY IN 1974 ITSELF. END SUMMARY.

2. INDUSTRIAL OUTPUT. GROWTH IN INDUSTRIAL PRODUCTION WILL BE AROUND EIGHT PERCENT FOR 1974. TARGET FOR YEAR WITHIN NINTH FIVE YEAR PLAN (FYP) WAS 8.8 PERCENT, WHILE REDUCED GOAL SET LAST DECEMBER WAS 6.8 PERCENT. EMBASSY BELIEVES THAT RATIO IN GROWTH OF PRODUCTION BETWEEN GROUP A AND B (SET LAST DECEMBER AT 6.6 AND 7.5 PERCENT RESPECTIVELY) WILL BE LARGELY MAINTAINED, ALTHOUGH OVERALL HIGHER GROWTH RATE OF EIGHT PERCENT MAY TEND TO FIND GREATER REFLECTION IN GROUP A (PRODUCER GOODS) OUTPUT.

3. BY EXTRAPOLATING VARIOUS OUTPUT FIGURES, IT APPEARS THAT 1974 PRODUCTION HAD TOTAL VALUE OF AROUND 505 BILLION RUBLES, UP NEARLY 40 BILLION FROM 1973. INDUSTRIAL GROWTH RATE OF 6.8 PERCENT CALLED FOR IN REDUCED PLAN--VALUED AT AROUND 34 BILLION--WAS EXCEEDED BY ANOTHER SIX BILLION WORTH OF PRODUCTION. OF THIS, OUTPUT OF AROUND 175 BILLION RUBLES WAS ACCOUNTED FOR BY MACHINEBUILDING, PETROCHEMICAL, AND CHEMICAL INDUSTRIES. THEIR SHARE IN PRODUCTION HAS BEEN GRADUALLY INCREASING FROM 31 PERCENT OF TOTAL IN 1970 TO SLIGHTLY OVER 35 PERCENT AT PRESENT.

4. NATIONAL INCOME. AT FIVE PERCENT, FROWTH IN NATIONAL INCOME IN 1974 SHARPLY DOWN FROM FYP AND REDUCED TARGETS (6.7 AND 6.5 PERCENT RESPECTIVELY). NATIONAL INCOME (RESOURCES AVAILABLE FOR CONSUMPTION AND ACCUMULATION), WHICH APPARENTLY AMOUNTED TO AROUND 267 BILLION RUBLES IN 1970, BY 1974 HAD CLIMBED TO ABOUT 330 BILLION RUBLES OF WHICH 15.7 BILLION WAS ADDED IN 1974. ASSUMING GNP HAS GROWN AT ROUGHLY SAME RATE AS NATIONAL INCOME OVER LAST FOUR YEARS, 1974 SOVIET GNP SHOULD BE AROUND 605 BILLION RUBLES. RATE OF INCREASE IN NATIONAL INCOME FROM 1971 THROUGH 1974 (23.6 PERCENT) FAR BELOW FYP GOAL OF 29 PERCENT.

5. CAPITAL INVESTMENTS. INVESTMENTS HAVE KEPT PACE WITH PLAN GOALS. SPENDING MONEY IS RELATIVELY EASY, AFTER ALL. PROBLEM IS THAT INVESTMENT TO LARGE EXTENT HAS BEEN WASTEFULLY SQUANDERED, OFTEN ON "UNCOMPLETABLE CONSTRUCTION LIMITED OFFICIAL USE

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PROJECTS." SOVIET INDUSTRIALISTS SEEM TO FAVOR PLANNING NEW FACTORIES RATHER THAN RE-EQUIPPING EXISTING ONES AS MEANS OF INCREASING OUTPUT. THIS IS PRESUMABLY ONE REASON NATIONAL INCOME GROWTH MUCH LOWER THAN EXPECTED: CONSTRUCTION IS BEHIND SCHEDULE WHICH MEANS THAT PLANNED PRODUCTION FACILITIES ARE NOT COMING ON STREAM, RESULTING IN REDUCED ADDITIONS TO NATIONAL WEALTH.

6. INFUSIONS OF R&D INTO PRODUCTION. WITHOUT DOUBT THIS IS ONE OF WEAKEST LINKS IN SOVIET ECONOMY. NO SIGNIFICANT PROGRESS ACHIEVED DURING 1974 ON PROBLEM OF MORE RAPID INTRODUCTION OF R&D ACHIEVEMENTS INTO PRODUCTION. MANY SPEAKERS AT CURRENT SUPREME SOVIET SESSION HAVE ADDRESSED THEMSELVES TO THIS SUBJECT: "... GROWING DEMANDS FOR MACHINERY AND EQUIPMENT, ESPECIALLY FOR COMPLEX MECHANIZATION, ARE STILL NOT BEING FULLY SATISFIED." "MANY FACTORIES CONTINUE TO PRODUCE UNPRODUCTIVE, OVERLY-HEAVY EQUIPMENT WITH LOW TECHNICAL PARAMETERS." "TECHNICAL RE-EQUIPPING OF EQUIPMENT, INTRODUCTION OF ADVANCED TECHNOLOGICAL PROCESSES, UNIFICATION, AND STANDARDIZATION ARE BEING CARRIED OUT SLOWLY AT FACORIES." MINISTRIES CITED AS GUILTY OF PARTICULARLY LOW-QUALITY PRODUCTION ARE PETROLEUM REFINING AND PETROCHEMICAL INDUSTRY, CHEMICAL INDUSTRY, AND MACHINEBUILDING FOR LIGHT AND FOOD INDUSTRY AND HOUSEHOLD APPLIANCES.

7. LABOR PRODUCTIVITY. GIVEN RELATIVE DISINTEREST OF WORKERS IN WORKING HARDER, UNDERFULFILLMENT OF PLAN FOR INTRODUCTION OF ADVANCED TECHNOLOGY INTO PRODUCTION HAS AS DIRECT RESULT NON-FULFILLMENT OF PLANNED RISES IN LABOR PRODUCTIVITY. GOSPLAN CHAIRMAN BAYBAKOV ANNOUNCED THAT PLANNED INCREASES IN LABOR PRODUCTIVITY FOR FIRST FOUR YEARS OF FYP WILL NOT BE ACHIEVED. PRESUMABLY FULFILLMENT OF THIS KEY INDEX IN 1974--WHEN SIX PERCENT RISE WAS PLANNED--WILL ALSO NOT BE ATTAINED.

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